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SOUTH VIETNAM: Anxiety is growing in Saigon over intimations of flexibility in the latest allied peace proposals.

Initially, most informed South Vietnamese reacted favorably to the proposals, the more hawkish because they believed the offers would be rejected by the Communists and because they viewed the proposals primarily as effective propaganda. On giving the matter further thought, however, these Vietnamese apparently have concluded that the proposals might actually lead to a peace settlement that sacrificed essential Saigon interests.

Government critics have publicly charged in recent days that the proposals are unconstitutional. The leader of the opposition in the Senate remarked that the scope of the proposals has led people to conclude that "everything can be undone overnight," and he believes the Communists will do everything they can to foster this impression.

According to the US Embassy in Saigon, there also is growing concern that the US might agree to a peace settlement that would "sell out" South Vietnam's interests. Some prominent figures, including high government officials, have indicated that they consider Secretary of State Rogers' recent remarks about a flexible approach to a political settlement in South Vietnam to be "unwarranted interference" in the country's internal affairs. The government has planted stories critical of the Secretary's remarks in the Saigon press.

The current anxieties probably will persist so long as the South Vietnamese believe the proposals might generate pressures for further concessions. Adding to the uncertain atmosphere are concern over the expected enemy offensive and over the outcome of President Nixon's trip to China. (CONFIDENTIAL NO FOREIGN DISSEM)

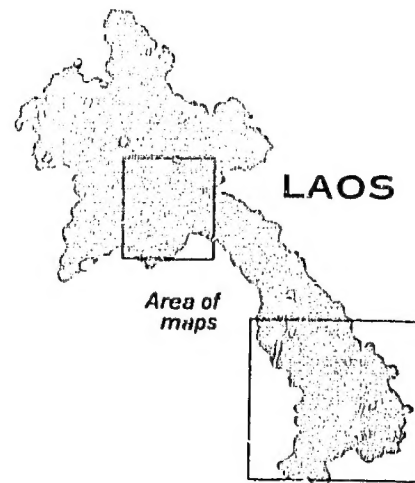
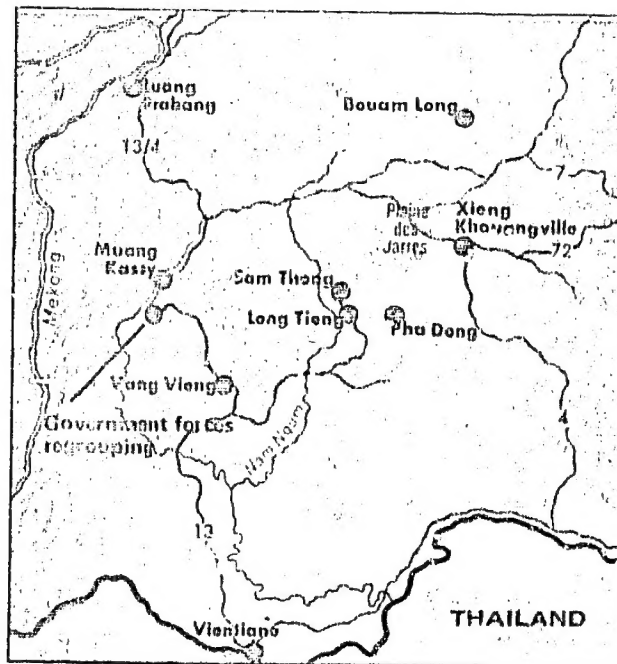
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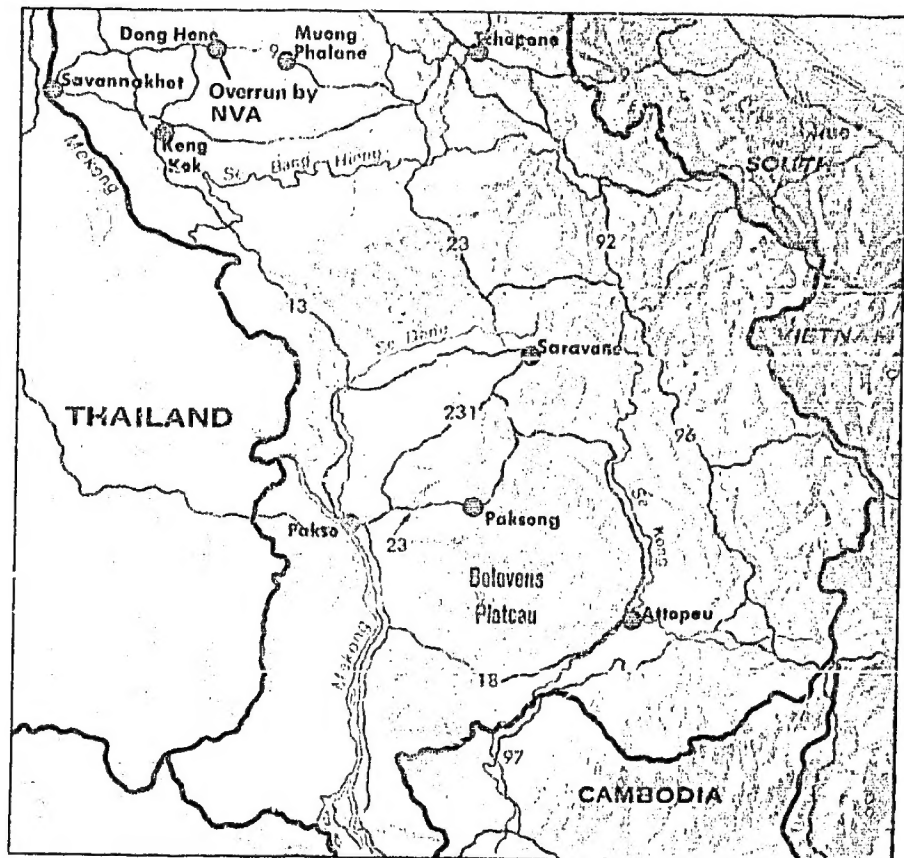
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[LAOS: The North Vietnamese appear to be taking steps to counter Vang Pao's new operation south of the Plaine des Jarres.

On 8 February they fired mortars at positions northwest of Pha Dong, the jumping-off place for 5,000 of Vang Pao's irregulars who are moving north-east toward Route 4 to harass enemy lines of communication. Later in the day, the Communists fired about 50 rounds from their heavy weapons--including the 130-mm. field guns--into Pha Dong. Little damage was caused, because only small irregular units remain in the area. So far the advancing irregulars report little resistance, although their patrols report enemy troop concentrations farther to the north and east.

Fighting along Skyline Ridge broke out again yesterday when irregulars on the east end of the ridge fought a day-long battle, losing four killed and 11 wounded but holding their key position. West of Long Tieng, government forces are regrouping between Muong Kassy and Vang Vieng in an attempt to halt any further southward advances by Communist forces on Route 13.

On 7 February in south Laos a North Vietnamese battalion with armor support overran the town of Dong Hene and irregular positions east of the town. The North Vietnamese also took Dong Hene last year. (CONFIDENTIAL)]

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SOUTH ASIA: The decision to withdraw Indian troops from Bangladesh by 25 March removes one major obstacle to peace talks on the subcontinent, but fundamental problems remain.

Prime Minister Gandhi's agreement with Sheikh Mujibur Rahman to set an early date for withdrawal of Indian troops presently in Bangladesh improves chances for eventual bilateral Pakistani discussions with Bangladesh and with India, as well as trilateral negotiations on the repatriation of prisoners of war. Pakistani President Bhutto has publicly insisted that the Bengalis cannot negotiate meaningfully with Pakistan as long as Indian forces remain, and the troop withdrawal could thus provide the climate for opening peace negotiations.

Meanwhile, officials in New Delhi appear to be making a determined effort to demonstrate India's readiness for Indo-Pakistani talks. Last week Foreign Secretary Kaul twice told US Embassy officials that India is willing to a talk with Pakistan on all outstanding differences at any time, level, or place without conditions. India's earlier reported stipulation that Pakistan must first accept the "reality" of Bangladesh appears to have been largely fulfilled by Bhutto's recent direct communications with Sheikh Mujib. Moreover, Indian officials reacted favorably to Bhutto's moderate statements on South Asia during his recent visit to Peking, and they also profess to recognize Bhutto's domestic political difficulties. They probably believe that Peking's relatively weak pledge of future support for Pakistan, combined with economic pressure and public demand within Pakistan for the return of some 90,000 prisoners of war, will cause Bhutto to be more forthcoming.

Although Indian officials now deny the existence of preconditions to Indo-Pakistani negotiations, ultimate Indian objectives in talks with Islamabad--acceptance of the status quo in Kashmir, agreement

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on an international border along the cease-fire line with minor rectifications, and an end to Pakistan's "policy of confrontation"--almost certainly remain unchanged. While Bhutto may be willing to negotiate on these issues, he would have difficulty finding a formula to relinquish traditional Pakistani claims to Kashmir. He would also face unpredictable political consequences at home if he were too accommodating toward the Indians, particularly regarding Kashmir.

India's recent interest in encouraging early negotiations is probably designed in part to offset Bhutto's attempts to internationalize the situation. He has called for a UN Security Council meeting and proposed the stationing of UN observers along the cease-fire line, while New Delhi repeatedly has warned against efforts to have outside powers or organizations attempt to mediate. As regards the repatriation of the Pakistani prisoners of war, New Delhi contends negotiations must be trilateral because the prisoners were captured by the joint India-Bangladesh command. (CONFIDENTIAL)

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URUGUAY: The government has rearrested five suspected terrorists who were released last week by a court order.

Police had captured six Tupamaros and presented evidence consisting of the suspects' own incriminating statements, subversive documents, and taped interviews with the two kidnap victims still held by the Tupamaros. Nevertheless, the district judge imprisoned only the one who had participated in the mass prison break last September, and freed the five others captured with him. The five are being held in military prisons under emergency security provisions.

The judiciary traditionally has protected the accused in criminal cases stemming from civic disorders, but the police now suspect many judges of being sympathetic to the Tupamaros or intimidated by threats and the kidnaping of one judge. The rearrests of the released terrorists appear to be the administration's response to what it considers the judiciary's obstruction of the campaign against terrorism. (CONFIDENTIAL)

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THE NETHERLANDS: The government's economic problems continued to mount this week when 30,000 metalworkers, defying a court order, began a wild-cat strike in Amsterdam and Rotterdam. The Biesheuvel government has refused to intervene, hoping that the Socialist trade union leadership can regain control of their rank and file in a pivotal industry. The government is divided over the question of reinstituting wage and price controls, and the strike is likely to sharpen this division. Public dissatisfaction with the economy already is high and may have led to Sunday's bombing of several gas pumping installations and a temporary cutback in service to domestic as well as to Belgian and French consumers. (CONFIDENTIAL)

* * * *

TUNISIA: The government extended until noon today its ultimatum that students must return to their classes or the University of Tunis will be closed until next fall. The university students initiated a strike on 1 February using as a pretext the continuing detention of two former university students. Despite government efforts to calm the students, the strike shows no signs of collapsing and is in fact spreading to the secondary schools. The security situation is tense, with some clashes between students and police and the arrest of some students. The government is clearly unwilling to capitulate now when its authority is being challenged; on the other hand, by extending the deadline it has shown a willingness to reach an accommodation. (CONFIDENTIAL)

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